

Fortress Investment Group LLC
Form 10-Q
August 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation
or organization)

20-5837959

(I.R.S. Employer Identification No.)

1345 Avenue of the Americas, New York, NY

(Address of principal executive offices)

10105

(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Class A Shares: 184,439,525 outstanding as of August 1, 2011.

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Class B Shares: 305,857,751 outstanding as of August 1, 2011.

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FORTRESS INVESTMENT GROUP LLC

FORM 10-Q

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As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires:

Management Fee Paying Assets Under Management, or AUM, refers to the management fee paying assets we manage, including, as applicable, capital we have the right to call from our investors pursuant to their capital commitments to various funds. Our AUM equals the sum of:

- (i) the capital commitments or invested capital (or NAV, if lower) of our private equity funds and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
- (ii) the contributed capital of our publicly traded alternative investment vehicles, which we refer to as our Castles,
- (iii) the net asset value, or NAV, of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and
- (iv) the NAV or fair value of our managed accounts, to the extent management fees are charged.

For each of the above, the amounts exclude assets under management for which we charge either no or nominal fees, generally related to our principal investments in funds as well as investments in funds by our principals, directors and employees.

Our calculation of AUM may differ from the calculations of other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers. Our definition of AUM is not based on any definition of assets under management contained in our operating agreement or in any of our Fortress Fund management agreements.

Fortress, we, us, our, and the company refer, collectively, to Fortress Investment Group LLC and its subsidiaries, including the Fortress Operating Group and all of its subsidiaries.

Fortress Funds and our funds refers to the private investment funds, alternative asset companies and related managed accounts that are managed by the Fortress Operating Group. The Fortress Macro Fund is our flagship liquid hedge fund and the Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

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Fortress Operating Group refers to the combined entities, which were wholly-owned by the principals prior to January 2007, and in each of which Fortress Investment Group LLC acquired an indirect controlling interest in January 2007.

principals or Principals refers to Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone and Michael Novogratz, collectively, who prior to the completion of our initial public offering and related transactions directly owned 100% of the Fortress Operating Group units and following completion of our initial public offering and related transactions own a majority of the Fortress Operating Group units and of the Class B shares, representing a majority of the total combined voting power of all of our outstanding Class A and Class B shares. The principals' ownership percentage is subject to change based on, among other things, equity offerings and grants by Fortress and dispositions by the principals.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part II, Item 1A, Risk Factors, Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, Part I, Item 3, Quantitative and Qualitative Disclosures About Market Risk and elsewhere in this Quarterly Report on Form 10-Q may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. Accordingly, you should not place undue reliance on any forward-looking statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

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Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10-Q and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	\$ 227,894	\$ 210,632
Due from affiliates	174,686	303,043
Investments	1,114,367	1,012,883
Deferred tax asset	407,192	415,990
Other assets	116,682	134,147
	\$ 2,040,821	\$ 2,076,695
Liabilities and Equity		
Liabilities		
Accrued compensation and benefits	\$ 138,593	\$ 260,790
Due to affiliates	288,416	342,397
Deferred incentive income	254,145	198,363
Debt obligations payable	272,500	277,500
Other liabilities	64,207	68,230
	1,017,861	1,147,280
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 184,439,525 and 169,536,968 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		
Class B shares, no par value, 750,000,000 shares authorized, 305,857,751 and 300,273,852 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		
Paid-in capital	1,703,243	1,465,358
Retained earnings (accumulated deficit)	(1,250,573)	(1,052,605)
Accumulated other comprehensive income (loss)	(1,228)	(1,289)
Total Fortress shareholders' equity	451,442	411,464
Principals and others' interests in equity of consolidated subsidiaries	571,518	517,951
Total equity	1,022,960	929,415
	\$ 2,040,821	\$ 2,076,695

See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues				
Management fees: affiliates	\$ 116,048	\$ 112,894	\$ 234,916	\$ 219,430
Management fees: non-affiliates	14,375	6,284	28,776	8,885
Incentive income: affiliates	14,531	28,849	29,607	46,405
Incentive income: non-affiliates	7	233	985	5,387
Expense reimbursements from affiliates	43,645	40,794	87,987	63,861
Other revenues (affiliate portion disclosed in Note 6)	1,210	2,276	4,362	7,550
	189,816	191,330	386,633	351,518
Expenses				
Interest expense	4,640	3,698	9,300	7,494
Compensation and benefits	161,398	159,529	376,833	338,922
Principals agreement compensation	237,367	237,367	472,126	472,126
General, administrative and other	35,198	24,242	75,380	45,350
Depreciation and amortization	3,267	3,294	6,347	5,976
	441,870	428,130	939,986	869,868
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	(6,759)	(12,957)	(11,522)	(12,385)
Tax receivable agreement liability adjustment			(116)	1,317
Earnings (losses) from equity method investees	18,497	6,150	90,900	26,031
	11,738	(6,807)	79,262	14,963
Income (Loss) Before Income Taxes	(240,316)	(243,607)	(474,091)	(503,387)
Income tax benefit (expense)	(5,786)	(7,634)	(27,205)	(9,186)
Net Income (Loss)	\$ (246,102)	\$ (251,241)	\$ (501,296)	\$ (512,573)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries				
Net Income (Loss) Attributable to Class A Shareholders	\$ (94,536)	\$ (92,384)	\$ (197,968)	\$ (176,535)
Dividends declared per Class A share	\$	\$	\$	\$
Earnings Per Class A share				
Net income (loss) per Class A share, basic	\$ (0.52)	\$ (0.57)	\$ (1.10)	\$ (1.14)
Net income (loss) per Class A share, diluted	\$ (0.56)	\$ (0.57)	\$ (1.11)	\$ (1.16)
Weighted average number of Class A shares outstanding, basic	184,952,566	165,246,781	183,018,516	161,385,135
Weighted average number of Class A shares outstanding, diluted	490,810,317	165,246,781	490,634,345	465,388,269

See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENT OF EQUITY (Unaudited)**

FOR THE SIX MONTHS ENDED JUNE 30, 2011

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders Equity	Principals and Others Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2010	169,536,968	300,273,852	\$ 1,465,358	\$ (1,052,605)	\$ (1,289)	\$ 411,464	\$ 517,951	\$ 929,415
Contributions from principals and others interests in equity							56,214	56,214
Distributions to principals and others interests in equity			(266)			(266)	(64,693)	(64,959)
Conversion of Class B shares to Class A shares	4,749,434	(4,749,434)	3,878		(33)	3,845	(3,845)	
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units			7,693			7,693		7,693
Director restricted share grant	143,624		384			384	658	1,042
Capital increase related to equity-based compensation, net	10,009,499	10,333,333	218,274			218,274	375,637	593,911
Dilution impact of Class A share issuance			7,922		(60)	7,862	(7,862)	
Comprehensive income (loss) (net of tax)				(197,968)		(197,968)	(303,328)	(501,296)
Foreign currency translation					(47)	(47)	149	102
Comprehensive income (loss) from equity method investees					201	201	637	838
Total comprehensive income (loss)								(500,356)

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**Equity - June 30,
2011**

184,439,525 305,857,751 \$ 1,703,243 \$ (1,250,573) \$ (1,228) \$ 451,442 \$ 571,518 \$ 1,022,960

See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(dollars in thousands)

	Six Months Ended June 30,	
	2011	2010
Cash Flows From Operating Activities		
Net income (loss)	\$ (501,296)	\$ (512,573)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	6,347	5,976
Other amortization and accretion	756	1,678
(Earnings) losses from equity method investees	(90,900)	(26,031)
Distributions of earnings from equity method investees	14,944	4,076
(Gains) losses	11,522	12,385
Deferred incentive income	(25,399)	(46,677)
Deferred tax (benefit) expense	15,601	2,440
Options received from affiliates	(7,021)	
Tax receivable agreement liability adjustment	116	(1,317)
Equity-based compensation, including Principals Agreement	594,195	584,155
Allowance for doubtful accounts	4,958	(2,447)
Other		1,005
Cash flows due to changes in		
Due from affiliates	(14,601)	(67,975)
Other assets	25,279	838
Accrued compensation and benefits	(79,189)	21,640
Due to affiliates	(11,236)	(9,346)
Deferred incentive income	78,537	131,546
Other liabilities	(8,122)	(1,397)
Net cash provided by (used in) operating activities	14,491	97,976
Cash Flows From Investing Activities		
Contributions to equity method investees	(57,776)	(31,694)
Distributions of capital from equity method investees	168,381	46,124
Purchase of fixed assets	(7,797)	(1,522)
Acquisitions, net of cash received		(13,474)
Net cash provided by (used in) investing activities	102,808	(566)
Cash Flows From Financing Activities		
Repayments of debt obligations	(5,000)	(41,925)
Principals and others interests in equity of consolidated subsidiaries - contributions	12,856	56
Principals and others interests in equity of consolidated subsidiaries - distributions	(107,893)	(85,113)
Net cash provided by (used in) financing activities	(100,037)	(126,982)
Net Increase (Decrease) in Cash and Cash Equivalents	17,262	(29,572)
Cash and Cash Equivalents, Beginning of Period	210,632	197,099
Cash and Cash Equivalents, End of Period	\$ 227,894	\$ 167,527
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$ 8,025	\$ 6,583
Cash paid during the period for income taxes	\$ 6,657	\$ 6,006
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	\$ 43,007	\$ 64,021

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Investments of receivable amounts into Fortress Funds	\$	143,397	\$	8,092
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$		\$	4,337
Distributions declared but not yet paid on other non-controlling interests	\$		\$	23,614
Contingent consideration in purchase of Logan Circle Partners L.P.	\$		\$	4,000

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2011

(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Fortress Investment Group LLC (the Registrant, or, together with its subsidiaries, Fortress) is a leading, highly diversified global investment management firm whose predecessor was founded in 1998. Its primary business is to sponsor the formation of, and provide investment management services for, various investment funds and companies, including related managed accounts (collectively, the Fortress Funds). Fortress generally makes principal investments in these funds.

Fortress has three primary sources of income from the Fortress Funds: management fees, incentive income, and investment income on its principal investments in the funds. The Fortress Funds fall into the following business segments in which Fortress operates:

1) Private equity:

a) Private equity funds, which make significant, control-oriented investments in debt and equity securities of public or privately held entities in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows; and

b) Publicly traded alternative investment vehicles, which Fortress refers to as Castles, which are companies that invest primarily in real estate and real estate related debt investments.

2) Liquid hedge funds, which invest globally in fixed income, currency, equity and commodity markets, and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes a fund-of-funds business, which invests in Fortress Funds, funds managed by external managers, and direct investments.

3) Credit funds:

a) Credit hedge funds, which make highly diversified investments globally in assets, opportunistic lending situations and securities throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and

b) Credit private equity (PE) funds which are comprised of a family of credit opportunities funds focused on investing in distressed and undervalued assets, a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of real assets funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), and two Asia funds, a Japan real estate fund and an Asian investor based global opportunities fund.

- 4) Principal investments in the above described funds.

Financial Statement Guide

Selected Financial Statement Captions	Note Reference	Explanation
<u>Balance Sheet</u>		
Due from Affiliates	6	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments	3	Primarily the carrying value of Fortress's principal investments in the Fortress Funds.
Deferred Tax Asset	5	Relates to potential future tax benefits.
Due to Affiliates	6	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	2	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

JUNE 30, 2011

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Debt Obligations Payable	4	The balance outstanding on the credit agreement.
Principals and Others Interests in Equity of Consolidated Subsidiaries	6	The GAAP basis of the Principals and one senior employee's ownership interests in Fortress Operating Group as well as employees' ownership interests in certain subsidiaries.
<u>Statement of Operations</u>		
Management Fees: Affiliates	2	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	2	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	2	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non-Affiliates	2	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	7	Includes equity-based, profit-sharing and other compensation to employees.
Principals Agreement Compensation	N/A	As a result of the principals agreement, the January 2007 value of a significant portion of the Principals' equity in Fortress is being recorded as an expense over a five year period. Fortress is not a party to this agreement. It is an agreement between the Principals to further incentivize them to remain with Fortress. This GAAP expense has no economic effect on Fortress or its shareholders.
Gains (Losses)	3	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the Castles and GAGFAH).
Tax Receivable Agreement Liability Adjustment	5	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	3	Fortress's share of the net earnings (losses) of the Fortress Funds resulting from its principal investments.
Income Tax Benefit (Expense)	5	The net tax result related to the current period. Certain of Fortress's revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2011

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Principals and Others Interests in (Income) Loss of Consolidated Subsidiaries	6	Primarily the Principals and employees share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	8	GAAP earnings per Class A share based on Fortress's capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress's earnings, at both the Fortress and subsidiary levels.
Other		
Distributions	8	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	10	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

In May 2011, the FASB issued new guidance regarding the measurement and disclosure of fair value, which will become effective for Fortress on January 1, 2012. Fortress does not expect this guidance to have a material direct impact on its financial position, results of operations or liquidity. Fortress has not yet completed its assessment of the potential impact of this guidance on the fair values reported by its funds.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, the definition of an investment company, financial statement presentation, revenue recognition, leases, financial instruments, hedging, and contingencies. Some of the proposed changes are significant and could have a material impact on Fortress's reporting. Fortress has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress's consolidated and combined financial statements for the year ended December 31, 2010 and notes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and

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Exchange Commission on March 1, 2011. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2010.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

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JUNE 30, 2011

(dollars in tables in thousands, except share data)

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Fortress has two principal sources of income from its agreements with the Fortress Funds: contractual management fees, which are generally based on a percentage of fee paying assets under management, and related incentive income, which is generally based on a percentage of profits subject to the achievement of performance criteria. Substantially all of Fortress's net assets, after deducting the portion attributable to principals and others' interests, are a result of principal investments in, or receivables from, these funds. The terms of agreements between Fortress and the Fortress Funds are generally determined in connection with third party fund investors.

The Fortress Funds are divided into segments and Fortress's agreements with each are detailed below.

Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Private Equity				
Private Equity Funds				
Management fees - affil.	\$ 35,821	\$ 33,507	\$ 71,110	\$ 66,972
Incentive income - affil.	248	27,426	3,466	27,426
Castles				
Management fees - affil.	12,420	11,074	24,035	22,854
Management fees, options - affil.			7,021	
Management fees - non-affil.	1,278	490	1,938	1,374
Incentive income - affil.				
Liquid Hedge Funds				
Management fees - affil.	24,395	22,683	46,547	44,936
Management fees - non-affil.	4,586	1,668	9,375	3,004
Incentive income - affil.	60	116	2,060	(272)

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Incentive income - non-affil.		7		985				
Credit Funds								
Credit Hedge Funds								
Management fees - affil.		26,830	34,473	53,633	63,354			
Management fees - non-affil.		3,514	431	7,570	812			
Incentive income - affil.		342		2,148				
Incentive income - non-affil.			233		5,387			
Credit PE Funds								
Management fees - affil.		16,582	11,157	32,570	21,314			
Management fees - non-affil.		33		66				
Incentive income - affil.		13,881	1,307	21,933	19,251			
Other (A)								
Management fees - non-affil.		4,964	3,695	9,827	3,695			
Total								
Management fees - affil.	\$	116,048	\$	112,894	\$	234,916	\$	219,430
Management fees - non-affil.	\$	14,375	\$	6,284	\$	28,776	\$	8,885
Incentive income - affil. (B)	\$	14,531	\$	28,849	\$	29,607	\$	46,405
Incentive income - non-affil.	\$	7	\$	233	\$	985	\$	5,387

(A) Related to Logan Circle.

(B) See Deferred Incentive Income below.

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Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily private equity funds and credit PE funds, is received when such funds realize profits, based on the related agreements. However, this incentive income is subject to contingent repayment by Fortress to the funds until certain overall fund performance criteria are met. Accordingly, Fortress does not recognize this incentive income as revenue until the related contingencies are resolved. Until such time, this incentive income is recorded on the balance sheet as deferred incentive income and is included as distributed-unrecognized deferred incentive income in the table below. Incentive income from such funds, based on their net asset value, which has not yet been received is not recorded on the balance sheet and is included as undistributed deferred incentive income in the table below.

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the six months ended June 30, 2011 and 2010. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$49.3 million and \$9.7 million of additional incentive income from affiliates would have been recognized during the six months ended June 30, 2011 and 2010, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as undistributed deferred incentive income in the table below.

During the six months ended June 30, 2011 and 2010, Fortress recognized \$21.9 million and \$19.3 million, respectively, of incentive income distributions from its credit PE funds which represented tax distributions. These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

Deferred incentive income from the Fortress Funds was comprised of the following, on an inception to date basis. This does not include any amounts related to third party funds, receipts from which are reflected as Other Liabilities until all contingencies are resolved.

	Distributed- Gross	Distributed- Recognized (A)	Distributed- Unrecognized (B)	Undistributed net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2010	\$ 702,709	\$ (504,346)	\$ 198,363	\$ 200,066

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Share of income (loss) of Fortress Funds					148,195
Distribution of incentive income	81,181		81,181		(81,181)
Recognition of previously deferred incentive income		(25,399)	(25,399)		
Deferred incentive income as of June 30, 2011	\$ 783,890	\$ (529,745)	\$ 254,145	\$	267,080

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At June 30, 2011, the net undistributed incentive income is comprised of \$364.6 million of gross undistributed incentive income, net of \$97.5 million of intrinsic clawback (see next page). The net undistributed incentive income amount represents the amount that would be received by Fortress from the related funds if such funds were liquidated on June 30, 2011 at their net asset values.

(D) From inception to June 30, 2011, Fortress has paid \$323.0 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income, of which \$27.9 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. If the \$364.6 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$140.5 million of compensation expense.

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The following tables summarize information with respect to the Fortress Funds, other than the Castles, and their related incentive income thresholds as of June 30, 2011:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment (C)	Inception to Date Distributions (D)	Net Asset Value (NAV) (E)	NAV Surplus (Deficit) (F)	Current Preferred Return Threshold (G)	Gain to Incentive Income Threshold (H)	Distributed Incentive Income (I)	Distributed Incentive Income Subject to Clawback (J)	Gross Intrinsic Clawback (K)	Net Intrinsic Clawback (L)	
Private Equity Funds												
NIH (1998)	Indefinite	\$ 415,574	\$ (801,926)	\$ 16,057	\$ N/A	\$ N/A	\$ N/A	\$ 94,513	\$	\$	\$	
Fund I (1999) (J)	Apr-10	1,027,871	(2,759,045)	118,851	1,850,025		N/A	22,411	325,931			
Fund II (2002)	Feb-13	1,974,296	(3,245,088)	115,785	1,386,577		N/A	287,024	46,164	14,189	9,085	
Fund III (2004)	Jan-15	2,762,993	(1,307,382)	1,627,830	172,219	1,079,970	907,751	66,903	66,903	66,903	45,108	
Fund III Coinvestment (2004)	Jan-15	273,648	(115,936)	177,977	20,265	139,318	119,053					
Fund IV (2006)	Jan-17	3,639,561	(119,445)	3,177,039	(343,077)	1,340,191	1,683,268					
Fund IV Coinvestment (2006)	Jan-17	762,696	(12,651)	656,273	(93,772)	289,400	383,172					
Fund V (2007)	Feb-18	4,103,714	(884)	3,604,583	(498,247)	970,983	1,469,230					
Fund V Coinvestment (2007)	Feb-18	990,477	(135)	586,067	(404,275)	270,255	674,530					
GAGACQ Fund (2004)	Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A	
FRID (2005)	Apr-15	1,220,228	(505,612)	367,914	(346,702)	519,494	866,196	16,447	16,447	16,447	10,041	
FRIC (2006)	May-16	328,754	(17,460)	215,058	(96,236)	147,927	244,163					
FICO (2006)	Jan-17	724,525	(5)	(23,553)	(748,073)	306,173	1,054,246					
FHIF (2006)	Jan-17	1,508,484	(63,169)	1,948,484	503,169	556,280	53,111					
FECEI (2007)	Feb-18	982,779	(146)	832,158	(150,475)	341,435	491,910					
								\$ 22,411	\$ 842,294	\$ 129,514	\$ 97,539	\$ 64,234
Credit PE Funds												
Long Dated Value Fund I (2005)	Apr-30	\$ 267,325	\$ (45,656)	\$ 268,266	\$ 46,597	\$ 81,346	\$ 34,749	\$	\$	\$	\$	
Long Dated Value Fund II (2005)	Nov-30	271,554	(99,820)	212,077	40,343	65,946	25,603	412				
Long Dated Value Fund III (2007)	Feb-32	340,740	(130,977)	307,040	97,277		N/A	16,219	1,983			
LDVF Patent Fund (2007)	Nov-27	41,795	(10,244)	54,127	22,576		N/A	1,568	461			
Real Assets Fund (2007)	Jun-17	355,857	(205,486)	221,698	71,327		N/A	9,815	1,316			
								\$ 27,602	\$ 4,172	\$	\$	

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<u>Credit PE Funds in</u>												
<u>Investment Period</u>												
Credit Opportunities Fund (2008)	Oct-20	\$ 4,573,738	\$ (4,596,156)	\$ 1,592,147	\$ 1,614,565	\$	\$	N/A	\$ 117,958	\$ 201,700	\$ 96,067	\$
Credit Opportunities Fund II (2009)	Jul-22	1,275,822	(337,445)	1,188,886	250,509			N/A	50,582			
FTS SIP L.P. (2008)	Oct-18	1,024,373	(901,001)	456,371	332,999			N/A	22,958	44,550	27,047	
SIP Managed Account (2010)	Sep-20	11,000	(7,937)	13,662	10,599			N/A	2,650			
FCO MA LSS (2010)	Jun-24	118,093	(14,762)	114,017	10,686			N/A	2,215			
FCO MA II (2010)	Jun-22	224,479	(36,152)	234,609	46,282			N/A	8,790			
FCO MA Maple Leaf (2010)	Oct-20	126,478	(3,903)	123,595	1,020	3,957	2,937					
Assets Overflow Fund (2008)	May-18	90,500	(112,344)	1	21,845			N/A		2,180	1,517	
Japan Opportunity Fund (2009)	Jun-19	807,279	(272,372)	692,463	157,556			N/A	22,610	8,100		
Net Lease Fund I (2010)	Feb-20	53,958	(5,642)	54,622	6,306			N/A	820			
Global Opportunities Fund (2010)	Sep-20	74,933		73,001	(1,932)	2,770	4,702					
Life Settlements Fund (2010)	Dec-22	285,441		274,546	(10,895)	10,813	21,708					
Life Settlements Fund MA (2010)	Dec-22	23,394		22,468	(926)	886	1,812					
									\$ 228,583	\$ 256,530	\$ 124,631	\$

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	Incentive Income Eligible NAV (K)	Gain to Cross Incentive Income Threshold (L)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (M)	Undistributed Incentive Income (N)	Year to date Incentive Income Crystallized (O)
Liquid Hedge Funds					
Macro Funds (P) (S)					
Main fund investments	\$ 2,587,218	\$ 95,126	2.2%	\$ 254	\$ 720
Sidepocket investments (Q)	51,060	28,483	N/A	664	
Sidepocket investments - redeemers (R)	273,497	138,357	N/A	3,691	
Managed accounts	694,744	39,829	0.0%		8
Fortress Commodities Funds					
Main fund investments	1,036,433	50,864	0.0%		1,026
Managed accounts	150,000	10,817	0.0%		889
Fortress Partners Funds (S)					
Main fund investments	147,858	36,236	0.0%	1	
Sidepocket investments (Q)	94,720	30,214	N/A	726	
Credit Hedge Funds					
Special Opportunities Funds (S)					
Main fund investments	\$ 2,954,031		100.0%	\$ 46,002	\$
Sidepocket investments (Q)	131,401	2,310	N/A	3,885	
Sidepocket investments - redeemers (R)	213,239	82,360	N/A	1,585	
Main fund investments (liquidating) (T)	1,548,128	161,127	88.2%	37,486	1,847
Managed accounts	27,964	20,781	0.0%		
Worden Funds					
Main fund investments	211,612		99.8%	3,168	
Value Recovery Funds (U)					
Managed accounts	89,122	4,573	82.5%	444	

(A) Vintage represents the year in which the fund was formed.

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(B) Represents the contractual maturity date including the assumed exercise of all extension options, which in some cases may require the approval of the applicable fund advisory board. Private equity funds that have reached their maturity date are included in the table to the extent they have generated incentive income.

(C) A NAV deficit represents the gain needed to cross the incentive income threshold (as described in (E) below), excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (D) below). As of period end, there is an aggregate NAV surplus within both the private equity funds and credit PE funds.

(D) Represents the gain needed to achieve the current relevant performance thresholds, assuming the gain described in (C) above is already achieved.

(E) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (I) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (H) below).

(F) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV.

(G) Represents the amount of incentive income previously received from the fund since inception.

(H) Represents the amount of incentive income previously received from the fund which is still subject to contingencies and is therefore recorded on the consolidated balance sheet as Deferred Incentive Income. This amount will either be recorded as revenue when all related contingencies are resolved, or, if the fund does not meet certain performance thresholds, will be returned by Fortress to the fund (i.e., clawed back).

(I) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. Gross and Net refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of June 30, 2011, Fortress held \$45.1 million of such amounts on behalf of employees related to all of the private equity funds.

(J) Fund I undistributed and distributed incentive income amounts are presented for the total fund, of which Fortress is entitled to approximately 50%. Distributed incentive income subject to clawback for Fund I is presented with respect to Fortress's portion only.

(K) Represents the portion of a fund's NAV or trading level that is eligible to earn incentive income.

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(L) Represents, for those fund investors whose NAV is below the performance threshold Fortress needs to obtain before it can earn incentive income

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from such investors (their incentive income threshold or high water mark), the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. The amount by which the NAV of each investor within this category is below their respective incentive income threshold varies and, therefore, Fortress may begin earning incentive income from certain investors before this entire amount is earned back. Fortress earns incentive income whenever the assets of new investors, as well as of investors whose NAV exceeds their incentive income threshold, increase in value.

(M) Represents the percentage which is computed by dividing (i) the aggregate NAV of all investors who are at or above their respective incentive income thresholds, by (ii) the total incentive income eligible NAV of the fund. The amount by which the NAV of each fund investor who is not in this category is below their respective incentive income threshold may vary, and may vary significantly. This percentage represents the performance of only the main fund investments and managed accounts relative to their respective incentive income thresholds. It does not incorporate the impact of unrealized losses on sidepocket investments that can reduce the amount of incentive income earned from certain funds. See footnote Q below.

(N) Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned.

(O) Represents the amount of incentive income Fortress has earned in the current period from the fund which is no longer subject to contingencies.

(P) Represents the Drawbridge Global Macro Funds, Fortress Macro Funds and Fortress Asia Macro Fund. The Drawbridge Global Macro SPV (the SPV), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The impact of the unrealized gains and losses within the SPV at June 30, 2011, as if they became realized, was immaterial to the amounts presented in the table for the Macro main fund.

(Q) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund

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investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at June 30, 2011, the undistributed incentive income from the Macro main fund would be decreased by less than \$0.1 million.

(R) Represents investments held in sidepockets for investors with no corresponding investment in the related main fund investments. In the case of the Macro Funds, such investors may have investments in the SPV (see (P) above).

(S) Includes onshore and offshore funds.

(T) Relates to accounts where investors have provided return of capital notices and are subject to payout as underlying fund investments are realized.

(U) Excludes the Value Recovery Funds which had a NAV of \$746.1million at June 30, 2011. Fortress began managing the third party originated Value Recovery Funds in June 2009 and does not expect to earn any incentive income from the fund investments.

Private Equity Funds and Credit PE Funds

During the six months ended June 30, 2011, the capital commitment period of Fund V, Fund V Coinvestment and FECI expired. At such time, the AUM for these funds were reduced in aggregate by approximately \$2.0 billion and, beginning in July 2011, these funds generate lower management fees.

Liquid Hedge Funds and Credit Hedge Funds

During the six months ended June 30, 2011, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of June 30, 2011:

	Liquid	Credit
Fortress	\$ 20,302	\$
Fortress's affiliates	10,151	
Third party investors	107,892	
Total NAV (A)	\$ 138,345	\$

(A) Or other fee paying basis, as applicable.

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Redemption notices received, and redemption payments which are made in periods after notices are received, including affiliates, have been as follows:

Six Months Ended June 30,	Liquid Hedge Funds		Credit Hedge Funds	
	Redemption Notices Received	Redemptions Paid During the Period	Redemption Notices Received	Redemptions Paid During the Period
2011	\$ 678,106	\$ 636,177	\$ 605,255	\$ 605,255
2010	\$ 706,982	\$ 1,238,055	\$ 648,652	\$ 648,652

The differences between notices received and redemptions paid are a result of timing (such as notices received prior to quarter end, paid afterwards), performance between the notice date and the payment date, and the contractual agreements regarding redemptions, which, in some cases, including all of the credit hedge funds, allow for delayed payment.

Traditional Asset Management

Logan Circle Partners, L.P. (Logan Circle) is a fixed income asset manager with approximately \$12.9 billion in assets under management as of June 30, 2011, which Fortress acquired in April 2010. Logan Circle is initially being reported in the unallocated section of Fortress's segments until such time as it becomes material to Fortress's operations.

Part of the acquisition price was paid with contingent consideration, which is contingent on the growth and performance of Logan Circle's business (but not contingent on the continued employment of any employees). The contingent consideration is payable in cash or Class A shares, at Fortress's option, and had an estimated fair value of approximately \$4 million at closing (the actual payment will either be zero or between \$5.3 million and \$28 million). The contingent consideration is measured at fair value with changes in fair value being recorded as a gain (loss). This fair value is measured based on the expected performance of Logan Circle in 2011 and a discount rate, and therefore is considered a Level 3 valuation (Note 3).

The assets acquired primarily included goodwill and other intangible assets, which have been recorded in Other Assets. The intangible assets are being amortized over their estimated useful lives, which range from 1 to 8 years. Fortress tests the Logan Circle goodwill and other intangible assets for impairment annually in the fourth quarter of each calendar year, or whenever events or circumstances indicate that it is more likely

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than not that Logan Circle's fair value has declined below its carrying value. No impairment was recorded during the six months ended June 30, 2011. Logan Circle's fair value is estimated based on the following key assumptions: expected retention rate of existing investors, growth expectations, estimated future fee rates, estimated operating margin, and market discount rates. These assumptions are determined primarily based on Logan Circle's past experience, Logan Circle's historical and recent investment performance, Logan Circle's business plans, current industry trends, and general economic expectations. These assumptions, particularly those relating to investor retention and growth expectations, as well as discount rates, are highly subjective and are subject to significant uncertainty with respect to future events. Continued challenging credit market conditions could adversely impact the value of Logan Circle.

During the six months ended June 30, 2011, Logan Circle generated approximately \$9.9 million of revenues (primarily management fees from non-affiliates) and \$(9.8) million of net (loss). This net (loss) does not include the change in fair value of the contingent consideration, but does include approximately \$3.0 million of allocated corporate overhead. In connection with the acquisition of Logan Circle, Fortress established a compensation plan for former Logan Circle employees who became employees of Fortress (the Logan Circle Comp Plan see Note 7).

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3. INVESTMENTS AND FAIR VALUE

Investments consist primarily of investments in equity method investees and options in these investees. The investees are primarily Fortress Funds.

Investments can be summarized as follows:

	June 30, 2011	December 31, 2010
Equity method investees	\$ 1,055,967	\$ 949,410
Equity method investees, held at fair value	49,794	60,324
Total equity method investments	1,105,761	1,009,734
Options in equity method investees	8,606	3,149
Total investments	\$ 1,114,367	\$ 1,012,883

Gains (losses) from investments can be summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net realized gains (losses)	\$ (3,396)	\$ (55)	\$ (3,119)	\$ 345
Net realized gains (losses) from affiliate investments	86	(853)	(297)	(1,182)
Net unrealized gains (losses)	2,846	(637)	1,378	(637)
Net unrealized gains (losses) from affiliate investments	(6,295)	(11,412)	(9,484)	(10,911)
Total gains (losses)	\$ (6,759)	\$ (12,957)	\$ (11,522)	\$ (12,385)

Investments in Equity Method Investees

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Fortress holds investments in certain Fortress Funds which are recorded based on the equity method of accounting. Fortress's maximum exposure to loss with respect to these entities is generally equal to its investment plus its basis in any options received from such entities, plus any receivables from such entities as described in Note 6. In addition, unconsolidated affiliates also hold ownership interests in certain of these entities. Summary financial information related to these investments is as follows:

	Fortress's Investment		Fortress's Equity in Net Income (Loss)			
	June 30, 2011	December 31, 2010	Three Months Ended June 30,		Six Months Ended June 30,	
			2011	2010	2011	2010
Private equity funds, excluding						
NIH (A)	\$ 677,899	\$ 611,794	\$ 14,255	\$ 7,444	\$ 69,518	\$ 16,686
NIH	1,417	1,664	(57)	(32)	(100)	(181)
Newcastle (B)	5,929	6,872	N/A	N/A	N/A	N/A
Eurocastle (B)	1,771	2,184	N/A	N/A	N/A	N/A
Total private equity	687,016	622,514	14,198	7,412	69,418	16,505
Liquid hedge funds	221,055	197,792	(885)	(67)	8,712	6,340
Credit hedge funds	55,555	57,661	1,783	1,843	5,031	5,036
Credit PE funds	134,821	125,265	2,715	(3,888)	7,220	(3,936)
Other	7,314	6,502	686	850	519	2,086
	\$ 1,105,761	\$ 1,009,734	\$ 18,497	\$ 6,150	\$ 90,900	\$ 26,031

(A) Includes Fortress's direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH.

(B) Fortress elected to record these investments, as well as its direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH, at fair value pursuant to the fair value option for financial instruments.

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A summary of the changes in Fortress's investments in equity method investees is as follows:

	Six Months Ended June 30, 2011							Total
	NIH	Private Equity Other Funds (A)	Castles (B)	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Other	
Investment, beginning	\$ 1,664	\$ 611,794	\$ 9,056	\$ 197,792	\$ 57,661	\$ 125,265	\$ 6,502	\$ 1,009,734
Earnings from equity method investees	(100)	69,518	N/A	8,712	5,031	7,220	519	90,900
Other comprehensive income from equity method investees	(4)		N/A			1,156		1,152
Contributions to equity method investees		6,471		82,331	93,564	25,612	320	208,298
Distributions of earnings from equity method investees			N/A	(894)	(8,299)	(5,726)	(25)	(14,944)
Distributions of capital from equity method investees	(143)	(485)	N/A	(66,886)	(92,402)	(16,879)	(2)	(176,797)
Total distributions from equity method investees	(143)	(485)	N/A	(67,780)	(100,701)	(22,605)	(27)	(191,741)
Mark to fair value - during period (C)	N/A	(13,873)	(1,544)	N/A	N/A	N/A	N/A	(15,417)
Translation adjustment		4,474	188					4,662
Dispositions						(1,827)		(1,827)
Investment, ending	\$ 1,417	\$ 677,899	\$ 7,700	\$ 221,055	\$ 55,555	\$ 134,821	\$ 7,314	\$ 1,105,761
Ending balance of undistributed earnings	\$	\$ 22,865	N/A	\$ 1,022	\$ 6,608	\$ 2,759	\$ 2,414	\$ 35,668

(A) Includes Fortress's direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH.

(B) Fortress elected to record these investments, as well as its direct investment in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH, at fair value pursuant to the fair value option for financial instruments.

(C) Recorded to Gains (Losses).

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The ownership percentages presented in the following tables are reflective of the ownership interests held as of the end of the respective periods. For tables which include more than one Fortress Fund, the ownership percentages are based on a weighted average by total equity of the funds as of period end. NIH, the Castles, GAGFAH and Other are not presented as they are insignificant to Fortress' s investments.

	Private Equity Funds excluding NIH	
	June 30, 2011	December 31, 2010
Assets	\$ 14,184,354	\$ 12,490,411
Debt	(41,464)	(145,043)
Other liabilities	(424,895)	(197,587)
Equity	\$ 13,717,995	\$ 12,147,781
Fortress' s Investment (A)	\$ 677,899	\$ 611,794
Ownership (B)	4.9%	5.0%

	Six Months Ended June 30,	
	2011	2010
Revenues and gains (losses) on investments	\$ 1,720,329	\$ 281,058
Expenses	(116,072)	(113,672)
Net Income (Loss)	\$ 1,604,257	\$ 167,386
Fortress' s equity in net income (loss)	\$ 69,518	\$ 16,686

(A) Includes Fortress' s direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH. These companies' summary financial information is not included in this table.

(B) Excludes ownership interests held by other Fortress Funds, the Principals, employees and other affiliates.

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	Liquid Hedge Funds		Credit Hedge Funds		Credit PE Funds (B) (C)	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Assets	\$ 10,237,513	\$ 7,418,362	\$ 8,973,630	\$ 9,579,405	\$ 6,488,967	\$ 6,593,935
Debt		(11,898)	(3,065,158)	(3,475,675)	(101,697)	(358,095)
Other liabilities	(3,695,612)	(1,299,246)	(412,419)	(590,845)	(370,997)	(573,000)
Non-controlling interest			(10,117)	(15,647)	(450)	(4,945)
Equity	\$ 6,541,901	\$ 6,107,218	\$ 5,485,936	\$ 5,497,238	\$ 6,015,823	\$ 5,657,895
Fortress's Investment	\$ 221,055	\$ 197,792	\$ 55,555	\$ 57,661	\$ 134,821	\$ 125,265
Ownership (A)	3.4%	3.2%	1.0%	1.0%	2.2%	2.2%

	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010	2011	2010
Revenues and gains (losses)						
on investments	\$ (12,545)	\$ 218,919	\$ 527,802	\$ 598,654	\$ 494,766	\$ 529,609
Expenses	(90,942)	(109,949)	(120,515)	(127,406)	(93,326)	(126,775)
Net Income (Loss)	\$ (103,487)	\$ 108,970	\$ 407,287	\$ 471,248	\$ 401,440	\$ 402,834
Fortress's equity in net income (loss)	\$ 8,712	\$ 6,340	\$ 5,031	\$ 5,036	\$ 7,220	\$ (3,936)

(A) Excludes ownership interests held by other Fortress Funds, the Principals, employees and other affiliates.

(B) Includes one entity which is recorded on a one quarter lag (i.e., the balances reflected for this entity are for the periods ended March 31, 2011 and 2010, respectively) and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities and do not provide financial reports under U.S. GAAP within the reporting timeframe necessary for U.S. public entities.

(C) Includes certain entities in which Fortress has both a direct and an indirect investment.

Investments in Variable Interest Entities

Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the variable interest entities in which it holds an interest, except as described below. No reconsideration events occurred during the six months ended June 30, 2011 which caused a change in Fortress's accounting.

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The following tables set forth certain information as of June 30, 2011 regarding variable interest entities in which Fortress holds a variable interest. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

Entities formed during the six months ended June 30, 2011:

Business Segment	Gross Assets	Fortress is not Primary Beneficiary		Notes
		Financial Obligations (A)	Fortress Investment (B)	
Private Equity Funds	\$ 250	\$	250	(C)
Credit PE Funds	\$ 144,419	\$ 143,203	\$ 1,086	(C)

(A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries. Of the financial obligations represented herein as of June 30, 2011, \$42.3 million represent financial borrowings which have a weighted average maturity of 40.5 years for the credit PE funds.

(B) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds, plus any receivables due from these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fees and/or incentive income Fortress earns from those entities.

(C) Fortress is not the primary beneficiary of these entities, which primarily represent investing vehicles, because the related funds (which are not consolidated) are more closely associated with these entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles were formed for the sole purpose of acting as investment vehicles for the related funds.

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All variable interest entities:

Business Segment	Gross Assets	June 30, 2011 Financial Obligations (A)	Fortress is not Primary Beneficiary		December 31, 2010 Financial Obligations (A)	Fortress Investment (B)	Notes
			Fortress Investment (B)	Gross Assets			
Private Equity Funds	\$ 16,465	\$	\$ 1,667	\$ 329,999	\$ 189,738	\$ 1,974	(C) (D)
Castles	9,111,616	8,305,231	23,000	10,183,554	9,944,424	19,122	(C) (D)
Liquid Hedge Funds	6,919,440	3,468,965	2,738	4,217,992	722,194	43,948	(C) (D)
Credit Hedge Funds	1,608,628	470,094	17,677	1,404,971	378,768	38,461	(C) (D)
Credit PE Funds	443,989	411,120	3,059	930,513	450,530	1,962	(C) (D)

(A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries.

(B) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fee and/or incentive income Fortress earns from those entities.

(C) Fortress is not the primary beneficiary of the Castles and NIH because it does not absorb a majority of their expected income or loss based on a quantitative analysis. Of the remaining entities represented herein, which represent investing vehicles, intermediate entities and master funds, Fortress is not the primary beneficiary because the related funds, intermediate entities and feeder funds (which are not consolidated) are more closely associated with these entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles, intermediate entities and master funds were formed for the sole purpose of acting as investment vehicles for the related funds.

(D) Fortress's investment includes management fees receivable, incentive income receivable, expense reimbursements and other receivables from these entities, as applicable.

In March 2010, Fortress determined that a reconsideration event had occurred with respect to an operating subsidiary (FCF) of one of its private equity funds. FCF provides operating services to all of Fortress's private equity funds and is reimbursed for related costs by the private equity funds based on a contractual formula. Therefore, FCF by design does not produce net income or have equity. As a result of this reconsideration

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event, FCF was deemed to be a VIE and Fortress, as a result of directing the operations of FCF through its management contracts with the private equity funds, and providing financial support to FCF, was deemed to be its primary beneficiary. Therefore, Fortress consolidated FCF beginning in March 2010. As of June 30, 2011, FCF's gross assets were approximately \$45.4 million, primarily comprised of affiliate receivables. Fortress's exposure to loss from FCF is limited to its unreserved outstanding advances, which were approximately \$26.9 million at June 30, 2011, plus any future advances. Subsequent to Fortress's consolidation of FCF, these advances are eliminated in consolidation. FCF's creditors do not have recourse to Fortress's other assets and FCF's assets are not available to other creditors of Fortress.

In March 2011, Fortress launched a liquid hedge fund and a related onshore feeder fund, which is a VIE. The onshore feeder fund invests substantially all of its equity directly into the liquid hedge fund. Based on a quantitative and qualitative analysis, management has determined that Fortress is currently the entity that is most closely associated with the onshore feeder fund. Therefore, Fortress is the onshore feeder fund's primary beneficiary and must consolidate it. As of June 30, 2011, the onshore feeder fund's gross assets were approximately \$32.0 million. Fortress's exposure to loss from the onshore feeder fund is limited to its investment in the entity, which was approximately \$19.3 million at June 30, 2011. As a result of Fortress's consolidation of the onshore feeder fund, Fortress's investment in the entity is eliminated in consolidation. Creditors of the fund do not have recourse to Fortress's other assets and the fund's assets are not available to other creditors of Fortress. As of June 30, 2011, the onshore feeder fund did not have any outstanding financial obligations. Creditors of the onshore feeder fund do not have recourse to Fortress's other assets. On July 1, 2011, third party investors made cash contributions to the onshore feeder fund causing Fortress to reconsider whether Fortress remained the entity that is most closely associated with the onshore feeder fund. Based on a qualitative and quantitative analysis, management has determined that Fortress ceased to be the entity most closely associated with the onshore feeder fund upon the third party investors' cash contributions. Therefore, Fortress derecognized the onshore feeder fund's gross assets and non-controlling interests therein and recognized a corresponding equity investment representing Fortress's proportionate share of the onshore feeder fund. Fortress did not recognize any gain or loss as the result of its deconsolidation of the onshore feeder fund, but Fortress will begin to recognize management fees and incentive income earned from the onshore feeder fund in its consolidated statement of operations.

In June 2011, Fortress launched a credit PE fund, which is a VIE. Based on a quantitative and qualitative analysis, management has determined that Fortress is currently the entity that is most closely associated with the fund. Therefore,

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Fortress is the fund's primary beneficiary and must consolidate it. As of June 30, 2011, the fund's gross assets were approximately \$10.7 million. Fortress's exposure to loss from the fund is limited to its investment in the entity, which was approximately \$10.7 million at June 30, 2011. As a result of Fortress's consolidation of the fund, Fortress's investment in the entity is eliminated in consolidation. As of June 30, 2011, the fund did not have any outstanding third party financial obligations. Creditors of the fund do not have recourse to Fortress's other assets and the fund's assets are not available to other creditors of Fortress.

Fair Value of Financial Instruments

The following table presents information regarding Fortress's financial instruments that are recorded at fair value. Investments denominated in foreign currencies have been translated at the period end exchange rate. Changes in fair value are recorded in Gains (Losses).

	Fair Value		Valuation Method
	June 30, 2011	December 31, 2010	
Assets (within Investments)			
Newcastle and Eurocastle common shares	\$ 6,221	\$ 7,222	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	\$ 42,094	\$ 51,267	Level 1 - Quoted prices in active markets for identical assets
Eurocastle convertible debt (A)	\$ 1,479	\$ 1,834	Level 3 - Binomial lattice-based option valuation models, adjusted for non-option characteristics
Newcastle and Eurocastle options	\$ 8,606	\$ 3,149	Level 2 - Lattice-based option valuation models using significant observable inputs
Liabilities (within Other Liabilities)			
Logan Circle Contingent Consideration	\$ (291)	\$ (3,122)	Level 3 - Internal model using significant unobservable inputs
Derivatives	\$ (885)	\$ (2,732)	Level 2 - See below

(A) The debt bears interest at 20% per annum and is perpetual, but Eurocastle may redeem the securities after June 2011 at a premium of 20%. As of June 30, 2011, it had a face amount of 1.2 million (\$1.7 million) and was convertible into Eurocastle common shares at 0.30 per share. The fair value was determined using the market value approach.

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Fortress's interests in instruments measured at fair value using Level 3 inputs changed during the six months ended June 30, 2011 as follows:

	Assets		Liabilities	
Balance at December 31, 2010	\$	1,834	\$	(3,122)
Total gains (losses) included in net income (including foreign currency translation)		(355)		2,831
Balance at June 30, 2011	\$	1,479	\$	(291)

See Note 4 regarding the fair value of Fortress's outstanding debt.

In March 2011, Newcastle issued 17.3 million shares of its common stock in a public offering at a price to the public of \$6.00 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 1,725,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$7.0 million. The options were fully vested upon issuance, become exercisable over thirty months and have a 10-year term.

Derivatives

Fortress is exposed to certain risks relating to its ongoing business operations. The primary risk managed by Fortress using derivative instruments is foreign currency risk. Fortress enters into foreign exchange forward contracts and options to economically hedge the risk of fluctuations in foreign exchange rates with respect to certain foreign currency denominated assets. Gains and losses on these contracts are reported currently in Gains (Losses).

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Fortress's derivative instruments are carried at fair value and are generally valued using models with observable market inputs that can be verified and which do not involve significant judgment. The significant observable inputs used in determining the fair value of our Level 2 derivative contracts are contractual cash flows and market based parameters such as foreign exchange rates.

Fortress's derivatives (not designated as hedges) are recorded as follows:

	Balance Sheet Location (A)	Fair Value June 30, 2011	Notional Amount June 30, 2011	Gains/(Losses) Six Months Ended June 30, 2011	Maturity Date
Foreign exchange option contract	Other Liabilities	\$ 737	30,000	\$ (777)	Feb-12
Foreign exchange option contract	Other Liabilities	\$ (1,622)	30,000	\$ (550)	Feb-12

(A) Fortress has a master netting agreement with its counterparty.

The counterparty on these derivatives is Citibank N.A.

4. DEBT OBLIGATIONS

Debt Obligation	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	June 30, 2011	
	June 30, 2011	December 31, 2010			Weighted Average Funding Cost (A)	Weighted Average Maturity (Years)
Credit agreement (B)						
Revolving debt (C)	\$	\$	LIBOR + 4.00% (D)	Oct-13		
Term loan	272,500	277,500	LIBOR + 4.00% (D)	Oct-15	5.98%	3.26
Total	\$ 272,500	\$ 277,500			5.98%	3.26

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(A) The weighted average funding cost is calculated based on the contractual interest rate (utilizing the most recently reset LIBOR rate or the minimum rate, as applicable) plus the amortization of deferred financing costs. The most recently reset LIBOR rate was below the minimum of 1.75%.

(B) Collateralized by substantially all of Fortress Operating Group's assets as well as Fortress Operating Group's rights to fees from the Fortress Funds and its equity interests therein.

(C) Approximately \$55.1 million was undrawn on the revolving debt facility as of June 30, 2011. The revolving debt facility includes a \$25 million letter of credit subfacility of which \$4.9 million was utilized.

(D) With a minimum LIBOR rate of 1.75% and, in the case of the revolving debt, subject to unused commitment fees of 0.625% per annum.

To management's knowledge, there have not been any market transactions in Fortress's debt obligations. However, management believes the fair value of this debt was approximately equal to its face amount at June 30, 2011.

Fortress was in compliance with all of its debt covenants as of June 30, 2011. The following table sets forth the financial covenant requirements as of June 30, 2011.

	June 30, 2011 (dollars in millions)		
	Requirement	Actual	
AUM, as defined	≥ \$25,000	\$ 35,203	(A)
Consolidated Leverage Ratio	≤ 2.75	0.65	(B)
Minimum Investment Assets Ratio	≥ 2.00	4.20	(C)
Consolidated Fixed Charge Coverage Ratio	≥ 1.75	9.08	(B)

(A) Impacted by capital raised in funds, redemptions from funds, and valuations of fund investments. The AUM presented here is based on the definition in the credit agreement.

(B) Impacted by EBITDA, as defined, which is impacted by the same factors as distributable earnings, except EBITDA is not impacted by changes in clawback reserves or gains and losses, including impairment, on investments.

(C) Impacted by capital investments in funds and the valuation of such funds' investments.

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5. INCOME TAXES AND TAX RELATED PAYMENTS

Fortress incurred a loss before income taxes for financial reporting purposes, after deducting the compensation expense arising from the Principals forfeiture agreement. However, this compensation expense is not deductible for income tax purposes. Also, a portion of Fortress's income is not subject to U.S. federal income tax, but is allocated directly to Fortress's shareholders.

Fortress recognizes compensation expense from the issuance of RSUs and RPU's over their vesting period. Consequently, Fortress records an estimated income tax benefit associated with RSUs and RPU's. However, Fortress is not entitled to an actual deduction on its income tax returns until a later date when the compensation is considered taxable to the employee. The actual income tax deduction can vary significantly from the amount recorded as an income tax benefit in earlier periods and is based on the value of the stock at the date the compensation is taxable to the employee.

At each tax deduction date, Fortress is required to compare the amount of the actual income tax benefit to the estimated amount recognized earlier. If the actual tax benefit is less than that estimated, which will occur if the price of the stock has declined during the vesting period, Fortress has a tax shortfall. The tax shortfall must be charged to income tax expense to the extent Fortress does not have prior excess tax benefits (i.e., prior actual tax benefits associated with RSUs and RPU's that were greater than the estimated benefits).

Based on the value of the RSUs and RPU's which vested during the six months ended June 30, 2011, Fortress has estimated a \$25.9 million tax shortfall which was charged to income tax expense during this period.

The provision for income taxes consists of the following:

Current	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Federal income tax expense (benefit)	\$ (437)	\$ 2,548	\$ 4,833	\$ 2,629
Foreign income tax expense (benefit)	757	505	3,761	1,092
State and local income tax expense (benefit)	774	1,417	3,010	3,025

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	1,094	4,470	11,604	6,746
Deferred				
Federal income tax expense (benefit)	3,111	1,596	11,401	528
Foreign income tax expense (benefit)	233	28	238	31
State and local income tax expense (benefit)	1,348	1,540	3,962	1,881
	4,692	3,164	15,601	2,440
Total expense (benefit)	\$ 5,786	\$ 7,634	\$ 27,205	\$ 9,186

The tax effects of temporary differences have resulted in deferred income tax assets and liabilities as follows:

	June 30, 2011	December 31, 2010
Total deferred tax assets	\$ 503,672	\$ 512,201
Valuation allowance	(96,480)	(96,211)
Net deferred tax assets	\$ 407,192	\$ 415,990
Total deferred tax liabilities (A)	\$ 504	\$ 495

(A) Included in Other Liabilities

For the six months ended June 30, 2011, a deferred income tax expense of \$0.3 million was debited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of \$0.1 million was credited to paid-in capital, related to (i) dividend equivalent payments on RSUs and RPU's (Note 8), as applicable, and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 8), which are currently deductible for income tax purposes.

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FIG Corp increased its ownership in the underlying Fortress Operating Group entities during the six months ended June 30, 2011 through (i) the exchanges by one senior employee of Fortress Operating Group units and Class B shares for Class A shares (as described in Note 8), and (ii) the delivery of vested RSUs and RPU's (Note 8). As a result of this increased ownership, the deferred tax asset was increased by \$4.8 million with an offsetting increase of \$1.8 million to the valuation allowance. In addition, the deferred tax asset was increased by \$5.6 million with an offsetting increase of \$1.1 million to the valuation allowance related to a step-up in tax basis due to the share exchange which will result in additional tax deductions. The establishment of these net deferred tax assets also increased additional paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the six months ended June 30, 2011, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$8.6 million. During the six months ended June 30, 2011, \$13.5 million was paid under the tax receivable agreement relating to 2009.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES***Affiliate Receivables and Payables***

Due from affiliates was comprised of the following:

June 30, 2011	Private Equity		Liquid Hedge Funds	Hedge Funds	Credit		Total
	Funds	Castles			PE Funds	Other	
Management fees and incentive income (A)	\$ 73,745	\$ 4,060	\$ 127	\$ 19,401	\$ 13,319	\$	\$ 110,652
Expense reimbursements (A)	3,969	2,590	4,316	4,803	3,844		19,522
Expense reimbursements - FCF (A) (B)	38,806						38,806

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Dividends and distributions			103						103
Other		19	771			1,390	3,423		5,603
Total	\$	116,539	\$ 7,524	\$ 4,443	\$ 24,204	\$ 18,553	\$ 3,423	\$	174,686

December 31, 2010	Private Equity		Liquid Hedge Funds	Hedge Funds	Credit		Other	Total
	Funds	Castles			PE Funds			
Management fees and incentive income (A)	\$ 53,282	\$ 3,836	\$ 47,920	\$ 108,623	\$ 15,508			\$ 229,169
Expense reimbursements (A)	1,170	3,081	2,296	3,790	3,949		4	14,290
Expense reimbursements - FCF (B)	42,385							42,385
Dividends and distributions	762							762
Other	3	521	13,219		1		2,693	16,437
Total	\$ 97,602	\$ 7,438	\$ 63,435	\$ 112,413	\$ 19,458		\$ 2,697	\$ 303,043

(A) Net of allowances for uncollectable management fees and expense reimbursements of \$11.9 million and \$5.3 million at June 30, 2011, respectively, and of \$11.6 million and \$1.5 million as of December 31, 2010, respectively. Allowances are recorded as General and Administrative expenses.

(B) Represents expense reimbursements due to FCF, a consolidated VIE (Note 3).

As of June 30, 2011, amounts due from Fortress Funds recorded in Due from Affiliates included \$73.7 million of past due management fees, excluding \$11.9 million which has been fully reserved by Fortress, and \$29.7 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees will ultimately be collectable since the NAVs of the respective funds exceed the amounts owed.

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Due to affiliates was comprised of the following:

	June 30, 2011		December 31, 2010
Principals - Tax receivable agreement - Note 5	\$ 282,145	\$	295,541
Distributions payable on Fortress Operating Group units			42,900
Other	6,271		3,956
	\$ 288,416	\$	342,397

Other Related Party Transactions

For the six months ended June 30, 2011 and 2010, Other Revenues included approximately \$1.3 million and \$4.0 million, respectively, of revenues from affiliates, primarily dividends.

Fortress has entered into cost sharing arrangements with certain Fortress Funds, including market data services and subleases of certain of its office space. Expenses borne by these Fortress Funds under these agreements are generally paid directly by those entities (i.e. they are generally not paid by Fortress and reimbursed). For the six months ended June 30, 2011 and 2010, these expenses approximated \$0.7 million and \$8.4 million, respectively.

In February 2011, Fortress made \$1.3 million of advances to senior employees (not officers) in connection with their investments in one of the Fortress Funds. These advances bear interest generally at LIBOR+4.25% and are due upon the maturity of the fund or, at Fortress's option, upon the termination of employment.

In February 2011, Fortress made a \$9.5 million advance to a senior employee (not an officer) in connection with his investments in Fortress Funds. This advance bore interest generally at LIBOR+4% and was repaid in March 2011.

In July 2011, Fortress committed to an aggregate of \$2.6 million of advances to senior employees (not officers) in connection with their investments in one of the Fortress Funds. These advances bear interest generally at LIBOR+4.25% and are due upon the maturity of the fund or

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upon certain events as defined in the related agreements.

Principals and Others Interests in Consolidated Subsidiaries

These amounts relate to equity interests in Fortress's consolidated, but not wholly owned, subsidiaries, which are held by the Principals, employees and others.

This balance sheet caption was comprised of the following:

	June 30, 2011	December 31, 2010
Fortress Operating Group units held by the Principals and one senior employee	\$ 504,348	\$ 458,842
Employee interests in majority owned and controlled fund advisor and general partner entities	62,791	57,609
Other	4,379	1,500
Total	\$ 571,518	\$ 517,951

This statement of operations caption was comprised of shares of consolidated net income (loss) related to the following, on a pre-tax basis:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Fortress Operating Group units held by the Principals and one senior employee	\$ (153,001)	\$ (160,653)	\$ (307,330)	\$ (340,775)
Employee interests in majority owned and controlled fund advisor and general partner entities	1,253	1,592	3,832	4,246
Other	182	204	170	491
Total	\$ (151,566)	\$ (158,857)	\$ (303,328)	\$ (336,038)

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(dollars in tables in thousands, except share data)

The purpose of this schedule is to disclose the effects of changes in Fortress' s ownership interest in Fortress Operating Group on Fortress' s equity:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss) attributable to Fortress	\$ (94,536)	\$ (92,384)	\$ (197,968)	\$ (176,535)
Transfers (to) from the Principals and Others				
Interests:				
Increase in Fortress' s shareholders' equity for the conversion of of Fortress Operating Group units by the Principals and one senior employee		7,188	3,845	7,188
Increase in Fortress' s shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs and RPU	6,846	4,100	7,862	7,533
Decrease in Fortress' s shareholders' equity for the purchase of Fortress Operating Group units in connection with an equity offering				
Change from net income (loss) attributable to Fortress and transfers (to) from Principals and Others				
Interests	\$ (87,690)	\$ (81,096)	\$ (186,261)	\$ (161,814)

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7. EQUITY-BASED AND OTHER COMPENSATION

Fortress's total compensation and benefits expense, excluding Principals Agreement compensation, is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Equity-based compensation, per below	\$ 57,739	\$ 48,222	\$ 122,069	\$ 112,029
Profit-sharing expense, per below	17,246	29,020	75,902	79,434
Discretionary bonuses	45,167	44,321	95,249	78,679
Other payroll, taxes and benefits	41,246	37,966	83,613	68,780
	\$ 161,398	\$ 159,529	\$ 376,833	\$ 338,922

Equity-Based Compensation

The following tables set forth information regarding equity-based compensation activities.

	Employees		RSUs		Non-Employees		Restricted Shares Issued to Directors		RPUs Employees	
	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding as of December 31, 2010	44,289,586	\$ 11.63	1,196,943	\$ 11.11	426,669	\$ 6.58	31,000,000	\$ 13.75		
Issued	5,904,089	5.62			143,624	5.23				
Converted to Class A shares	(9,635,345)	15.19	(389,677)	11.13			(4,749,434)	13.75		
Converted to Class B shares							(5,583,899)	13.75		
Forfeited	(663,799)	12.15								
Outstanding as of June 30, 2011 (B)	39,894,531	\$ 9.87	807,266	\$ 11.11	570,293	\$ 6.24	20,666,667	\$ 13.75		

Three Months Ended June 30,

Six Months Ended June 30,

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	2011	2010	2011	2010
Expense incurred (B)				
Employee RSUs	\$ 29,595	\$ 23,175	\$ 70,638	\$ 61,629
Non-Employee RSUs	36	565	422	1,815
Restricted Shares (C)	129	70	290	161
LTIP		1,714		3,410
STIP (D)	5,237		5,237	
RPU's	22,565	22,565	44,881	44,881
Logan Circle Comp Plan	177	133	601	133
Total equity-based compensation expense	\$ 57,739	\$ 48,222	\$ 122,069	\$ 112,029

- (A) Represents the weighted average grant date estimated fair value per share or unit. The weighted average estimated fair value per unit as of June 30, 2011 for awards granted to non-employees was \$4.82, which is equal to the closing trading price per share of Fortress Class A shares on such date.
- (B) In future periods, Fortress will recognize compensation expense on its non-vested equity based awards outstanding as of June 30, 2011 of \$354 million, with a weighted average recognition period of 1.92 years. This does not include contingent amounts or amounts related to the Principals Agreement.
- (C) Certain restricted shares granted to directors are recorded in General and Administrative Expense (\$0.6 million and \$0.2 million for the six months ended June 30, 2011 and 2010, respectively) and therefore are not included above.
- (D) STIP stands for Short Term Incentive Plan. In April 2011, one of the Principals entered into an agreement with a senior employee whereby such employee will receive 2,857,143 Fortress Operating Group units from such Principal if the employee remains with Fortress until January 2012. As a result of the service requirement, the fair value of these units of \$15.9 million will be charged to compensation expense in 2011.

When Fortress records equity-based compensation expense, including that related to the Principals Agreement, it records a corresponding increase in capital.

In April 2010, in connection with the acquisition of Logan Circle, Fortress created the Logan Circle Comp Plan. The Logan Circle Comp Plan provides for annual bonuses to a senior employee which may be paid partially in RSUs, as well as for

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potential Class A share awards to certain employees, including this senior employee, in the years 2015, 2016 and 2017. During the six months ended June 30, 2011, Fortress recorded \$0.6 million of equity-based compensation expense relating to the Logan Circle Comp Plan.

In January 2011, Fortress granted 5.2 million RSUs to its employees and affiliates valued at an aggregate of \$29.2 million on the grant date. These RSUs generally vest over two and a half years.

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Private equity funds	\$	\$	\$ 491	\$
Castles				
Liquid hedge funds	(1,802)	2,287	11,280	6,182